

Phillip Hassell 70
Hassell v RHHC
6/2/2017
Peggy Antone, CRR

HASSELL CONSTRUCTION COMPANY, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016



Morris, Ligon & Rodriguez
Certified Public Accountants
A Professional Corporation

HCCI-CONFIDENTIAL-AAA-PROTECTIVE ORDER-002087

HCCI Net
Worth Contest
Exhibit ____

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HASSELL CONSTRUCTION COMPANY, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Hassell Construction Company, Inc.
Houston, Texas

We have audited the accompanying financial statements of Hassell Construction Company, Inc., which comprise the balance sheet as of June 30, 2016, and the related statements of income and retained earnings and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Independent Auditors' Report
Page 2

Basis for Qualified Opinion

As discussed in Note 14 to the financial statements, the Company has reported in other assets an account receivable and a note receivable from various related parties in the aggregate amount of \$4,128,861. We were unable to obtain appropriate and sufficient audit evidence about the carrying amount and collectability of the receivables because we were unable to confirm the amounts with the related parties. Consequently, we were unable to determine whether any adjustment to this amount was necessary.

Qualified Opinion

In our opinion, except for the possible effects on the June 30, 2016 financial statements of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Hassell Construction Company, Inc. as of June 30, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Morris, Ligon & Rodriguez



October 24, 2016

HASSELL CONSTRUCTION COMPANY, INC.
BALANCE SHEET
JUNE 30, 2016

ASSETS

CURRENT ASSETS:

Cash		\$	1,365,929
Certificate of deposit			673,625
Accounts receivable:			
Estimates and trade	\$	4,029,301	
Retainage		1,979,499	
Officers		13,017	
Affiliate		459	
Other		3,519	6,025,795
Work in progress:			
Cost and estimated earnings in excess			
of billings on contracts in progress			1,039,894
Prepaid expenses and deposits:			
Prepaid rent		1,000	
Prepaid insurance		60,773	
Deposits - other		9,457	71,230
Total current assets			9,176,473

PROPERTY AND EQUIPMENT:

Buildings and improvements	198,574	
Machinery and equipment	8,506,898	
Leasehold improvements	109,498	
Automobiles and trucks	164,723	
Furniture and fixtures	104,036	
	9,083,729	
Less accumulated depreciation	6,889,915	
	2,193,814	
Land	79,145	2,272,959

OTHER ASSETS:

Accounts receivable - trade and retainage	302,909	
Account receivable - related parties	3,766,012	
Note receivable - related party	362,849	
Miscellaneous deposits	3,027	
Certificate of deposit	1,502,398	
Cash value life insurance	63,622	6,000,817

TOTAL

\$ 17,450,249

See notes to financial statements

LIABILITIES AND STOCKHOLDERS' EQUITY**CURRENT LIABILITIES:**

Current maturities of long-term debt		\$	454,870
Accounts payable:			
Trade	\$	2,836,720	
Subcontractor retainage		534,020	
Miscellaneous		4,243	3,374,983
Accrued expenses:			
Insurance, interest and taxes		121,132	
Payrolls		125,726	
Other		126,188	373,046
Advance billings:			
Billings in excess of cost and estimated earnings on contracts in progress			1,227,689
Federal income tax payable - current			304,611
Total current liabilities			5,735,199

DEFERRED FEDERAL INCOME TAX

578,550

LONG-TERM DEBT:

Total	5,002,387	
Less current maturities	454,870	4,547,517

STOCKHOLDERS' EQUITY:

Preferred stock	1,647,000	
Common stock	112,006	
Additional paid-in capital	1,059,903	
Retained earnings	4,174,095	
	6,993,004	
Less treasury stock - at cost	(404,021)	6,588,983

TOTAL

\$ 17,450,249

**HASSELL CONSTRUCTION COMPANY, INC.
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2016**

CONSTRUCTION REVENUE **\$ 26,264,174**

DIRECT COSTS:

Labor	\$ 3,714,264	
Materials	11,976,263	
Subcontracts	3,447,173	
Depreciation	968,713	
Equipment operating costs	623,136	
Leased employees	936,049	
Labor burden and fringes	718,563	
Equipment rentals	1,190,036	
Tools and supplies	75,417	
Automobiles and trucks	233,475	
Performance bonds	49,257	
Minor equipment rentals	67,831	
Field office	47,578	
Other direct costs	492,327	<u>24,540,082</u>

FIELD PROFIT **1,724,092**

GENERAL AND ADMINISTRATIVE EXPENSES:

Car allowance and operations	44,530	
Computer expense	17,709	
Contributions	3,450	
Depreciation	11,719	
Dues and subscriptions	18,166	
Insurance	205,706	
Leased employees	1,711,225	
Legal and professional	305,375	
License and permits	13,266	
Meals and entertainment	17,735	
Office supplies and expense	61,328	
Rent	81,672	
Salaries - office	10,259	
Salaries - officer	80,821	
Salaries - safety award bonuses	15,080	
Sales and promotional	3,532	
Taxes - ad valorem and general	208,463	
Taxes - payroll	5,432	
Telephone and radio	59,117	
Travel	3,907	
Utilities	11,157	
Miscellaneous	43,574	<u>2,933,223</u>

OPERATING LOSS **(1,209,131)**

OTHER INCOME (EXPENSE):

Gain on disposal of assets	2,376,547	
Interest income	184,907	
Interest expense	(206,838)	
Miscellaneous	7,784	<u>2,362,400</u>

INCOME BEFORE FEDERAL INCOME TAXES **1,153,269**

**HASSELL CONSTRUCTION COMPANY, INC.
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED JUNE 30, 2016**

PROVISION FOR FEDERAL INCOME TAXES:

Current	438,873	
Deferred	<u>(40,935)</u>	397,938

NET INCOME 755,331

RETAINED EARNINGS - BEGINNING OF YEAR 3,418,764

RETAINED EARNINGS - END OF YEAR \$ 4,174,095

See notes to financial statements

HASSELL CONSTRUCTION COMPANY, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$ 755,331	
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation	980,432	
Increase in cash surrender value of life insurance	(3,885)	
Deferred federal income tax	(40,935)	
Gain on disposal of assets	<u>(2,376,547)</u>	\$ (685,604)
Changes in operating assets and liabilities:		
Decrease (increase) in operating assets:		
Accounts receivable	511,849	
Work in progress	523,833	
Prepaid expenses and deposits	(6,981)	
Other assets	(176,349)	
Increase (decrease) in operating liabilities:		
Accounts payable	(2,260,484)	
Accrued expenses	29,543	
Advance billings	505,065	
Federal income tax payable - current	<u>304,611</u>	(568,913)

CASH FLOWS FROM INVESTING ACTIVITIES:

Net investment in certificates of deposits	(1,504,419)	
Proceeds from disposal of assets	2,827,283	
Purchase of property and equipment	<u>(83,270)</u>	1,239,594

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from long-term debt	976,217	
Payments of long-term debt	<u>(1,788,031)</u>	(811,814)

DECREASE IN CASH (826,737)

CASH - BEGINNING OF YEAR 2,192,666

CASH - END OF YEAR \$ 1,365,929

SUPPLEMENTAL DISCLOSURES:

Income tax paid	\$ 83,500
Interest paid	206,838
Non-cash investing and financing activities:	
Direct financing of property and equipment purchases	1,049,945

See notes to financial statements

**HASSELL CONSTRUCTION COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

1. Nature of Business and Significant Accounting Policies

Nature of Business

The Company's operations consist of concrete paving, underground utility installation and site work.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those amounts.

Fair Value Measurements

The carrying value of cash and cash equivalents, accounts receivable, prepaid expenses and deposits, accounts payable and accrued expenses approximate fair value due to the short-term maturities of these assets and liabilities. The carrying amounts of the Company's long-term debt approximate fair value based on borrowing rates currently available for debt of similar terms and maturities.

Balance Sheet Classifications

The Company includes in current assets and current liabilities amounts, such as retentions, receivable and payable, under construction contracts which may extend beyond one year. A one-year time period is used as the basis for classifying all other current assets and current liabilities.

Cash and Cash Equivalents

Cash includes checking, money market, and certificate of deposit accounts, and all highly liquid investments with an original maturity of three months or less, if any.

Certificates of Deposit

Certificates of deposit with a maturity in excess of three months but less than one year are included in current assets on the balance sheet. Certificates of deposit with remaining maturity dates in excess of one year are included in other assets on the balance sheet. Certificates of deposit are stated at cost plus accrued interest (see Note 3).

Income and Expense Recognition

Income and expenses are recognized using the accrual method of accounting with revenue from long-term construction contracts being recognized using the percentage of completion method. The percentage of completion is determined by the ratio of cost incurred to date to the estimated total cost to be incurred. No field profit is recognized on contracts less than fifteen percent complete. Losses on contracts are provided for in their entirety when estimates indicate a loss will be incurred.

The Company has occasionally combined contracts that are in the same area with the same owner. The Audit and Accounting Guide for Construction Contractors states that the basic presumption should be that each contract represents a separate profit center, that is, costs and revenues are generally accumulated and income is normally measured on a contract-by-contract basis. The basic presumption can only be overcome by persuasive evidence to the contrary. Management believes there is persuasive evidence that combining these contracts is necessary, on these occasions, as the jobs are in such close proximity to each other that each job benefits from sharing costs and resources so the matching of revenue and costs are more accurate if combined. Management also believes there is no material difference between the income recognized on the contracts combined and the income that would be recognized if the contracts were separately stated.

**HASSELL CONSTRUCTION COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

1. Nature of Business and Significant Accounting Policies - Continued

Deferred Federal Income Tax

Deferred federal income tax is determined using the liability method, where deferred tax assets and liabilities are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets include tax carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Property, Equipment, and Depreciation

Property and equipment are stated at cost. Maintenance and repairs are charged to operations as incurred. Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	15 to 25 years
Machinery and equipment	3 to 8 years
Leasehold improvements	15 to 20 years
Automobiles and trucks	5 years
Furniture and fixtures	3 to 8 years

Advertising

The Company expenses advertising costs when incurred.

Accrued Compensated Absences

Certain employees are entitled to paid vacations, sick days and personal days off, depending on job classification, length of service, and other factors. An accrued compensated absences estimate has not been made for the year ended June 30, 2016. Management does not expect this cost to have a significant impact on the Company's financial statements.

Warranties

Many of the Company's construction contracts contain warranty provisions covering defects in equipment, materials or workmanship that continue up to one year after the customer accepts the project or upon substantial completion. Because the Company has not experienced material warranty costs management does not believe an accrual for these costs is necessary.

2. Concentration of Credit Risk

The Company maintains cash accounts and certificates of deposit in several banks. The accounts are insured up to \$250,000 at each institution by the Federal Deposit Insurance Corporation. The amounts in excess of this coverage are uninsured and are subject to loss should the banks fail, with possible offset against outstanding loans. At June 30, 2016 the Company had \$3,251,300 in uninsured cash and certificate of deposit balances.

The Company provides construction services for and grants credit to various governmental and private entities located throughout the greater Houston and Southeast Texas areas.

3. Certificates of Deposit

At June 30, 2016, the Company had a three month certificate of deposit in the amount of \$181,206, with interest of .125%, maturing September 30, 2016. On September 30, 2016 the Company renewed this certificate of deposit (see Note 17).

At June 30, 2016, the Company had a one year certificate of deposit in the amount of \$673,625, with interest of .3%, maturing August 24, 2016. On August 24, 2016 the Company renewed this certificate of deposit (see Note 17).

**HASSELL CONSTRUCTION COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

3. Certificates of Deposit - Continued

At June 30, 2016, the Company also had a two year certificate of deposit in the amount of \$1,502,398, with interest of .65%, maturing February 25, 2018. The certificate serves as collateral on the Company's line of credit with CommunityBank of Texas (see Note 5).

4. Accounts Receivable and Bad Debt Allowance

Trade accounts receivable are periodically evaluated for collectability based on past credit history with customers and their current financial condition. Management of the Company is of the opinion trade accounts receivable at June 30, 2016 are collectible. Accordingly, no provision for bad debt allowance has been made.

At June 30, 2016 the Company had an accounts receivable trade and retainage balance of \$302,909 where collection is being delayed as a result of a lawsuit (see Note 16). Management is of the opinion this balance is collectible. The account receivable is shown as other assets in these financial statements.

5. Line of Credit

During the year ended June 30, 2016 the Company extended its line of credit agreement with CommunityBank of Texas to mature on July 25, 2017 with an interest rate equal to the greater of the published prime rate or 5%, collateralized by chattel paper, accounts, eligible equipment, general intangibles, a Deed of Trust, a certificate of deposit, and the personal guaranty of the principal stockholder. The agreement provides for advances up to \$5,000,000 limited to the borrowing base. The borrowing base is 80% of eligible accounts receivable reported at the end of each month and 65% of eligible equipment. The equipment must be appraised at least once in each fiscal year by an appraisal firm acceptable to lender. At June 30, 2016 the Company had a \$3,813,711 balance on the line of credit (see Note 6).

The line of credit agreement requires that the Company meet certain financial covenants at all times including a current ratio of not less than 1.25 to 1.00, working capital of not less than \$3,000,000, tangible net worth of not less than \$5,250,000 and debt to tangible net worth of not more than 3.5 to 1.00 all of which are to be tested at the end of each fiscal year. The agreement also requires that the Company be in compliance with various affirmative and negative covenants.

6. Long-Term Debt

Long-term debt consists of the following:

Note payable in monthly installments of \$3,334, including annual interest of 4%, collateralized by a Peterbilt tractor	\$ 15,460
Note payable in monthly installments of \$4,565, including annual interest of 3.6%, collateralized by various equipment	31,572
Note payable in monthly installments of \$1,729, including annual interest of 5%, collateralized by a Ford F550	6,452
Note payable in monthly installments of \$2,557, with no interest, collateralized by a planer	25,563
Note payable in monthly installments of \$1,941, including annual interest of 4.5%, collateralized by a Peterbilt 337	22,586

**HASSELL CONSTRUCTION COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

6. Long-Term Debt - Continued

Note payable in monthly installments of \$2,589, including annual interest of 1.24%, collateralized by a D21P-8 crawler dozer	4,858
Note payable in monthly installments of \$2,767, with no interest, collateralized by a D39PX-23 crawler dozer	60,883
Note payable in monthly installments of \$2,804, with no interest, collateralized by a WA200-6 wheel loader	61,694
Note payable in monthly installments of \$2,719, with no interest, collateralized by a PC88MR-8 hydraulic excavator	19,031
Note payable in monthly installments of \$4,151, with no interest, collateralized by a D61PX-23 crawler dozer	178,486
Note payable in monthly installments of \$4,151, with no interest, collateralized by a D61PX-23 crawler dozer	178,486
Note payable in monthly installments of \$3,839, with no interest, collateralized by a PC240LC-10 hydraulic excavator	165,098
Note payable in monthly installments of \$2,984, with no interest, collateralized by a WA200-7 wheel loader	128,295
Note payable in monthly installments of \$3,178, with no interest, collateralized by a WA200-7 wheel loader	136,662
Note payable in monthly installments of \$3,571, with no interest, collateralized by a PC240LC-10 hydraulic excavator	153,550
Line of credit (see Note 5)	3,813,711
	<u>5,002,387</u>
Less current maturities	<u>454,870</u>
	<u>\$ 4,547,517</u>

The following are maturities of long-term debt:

June 30, 2017	\$ 454,870
June 30, 2018	4,131,914
June 30, 2019	262,486
June 30, 2020	153,117
	<u>\$ 5,002,387</u>

Certain note agreements contain a due on demand clause. Subsequent to June 30, 2016 the Company obtained waivers for these due on demand clauses.

7. Operating Leases

During the year ended June 30, 2016 the Company leased certain equipment and vehicles under agreements classified as operating leases. Total rental expense incurred by the Company for these leases for the year ended June 30, 2016 was \$413,664.

HASSELL CONSTRUCTION COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

7. Operating Leases - Continued

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of June 30, 2016 are:

<u>Year Ended</u>	<u>Amount</u>
June 30, 2017	\$ 266,781
June 30, 2018	<u>72,892</u>
	<u>\$ 339,673</u>

8. Deferred Federal Income Tax

Deferred federal income tax is provided for the difference between financial and taxable income resulting from the use of the Modified Accelerated Cost Recovery System for federal income tax purposes. At June 30, 2016 the Company had a deferred tax liability in the amount of \$578,550.

9. Capital Structure

	<u>Authorized Shares</u>	<u>Issued Shares</u>	<u>Par Value</u>
Class A common stock - \$1 par value	1,000,000	102,006	\$ 102,006
Class B common stock - no par value	1,000,000	130,099	10,000
Preferred stock - \$15 par value	1,000,000	109,800	1,647,000
	<u>3,000,000</u>	<u>341,905</u>	<u>\$ 1,759,006</u>

At June 30, 2016, 27,450 shares of preferred stock and 36,300 shares of class A common stock were held as treasury stock.

Class A common stock has voting rights of one vote per share and no liquidation or dividend preference.

Class B common stock has no voting rights until the death of James C. Hassell, the principal stockholder, whereupon class B common shares shall become entitled to one vote per share. It has no liquidation or dividend preference.

The preferred stock has voting rights of ten votes per share and a liquidation preference of 100% of its par value per share. It has first priority to non-cumulative, non-participating dividends of 9% of its par value.

10. Significant Estimates

As stated in Note 1, the Company uses the percentage of completion method for recognizing revenue earned on contracts in progress. The reliability of this method for determining revenue earned to date is dependent on the accuracy of the contract amounts and management's estimate of the cost to complete the contracts. Contract amounts are determined based on the original estimate of the unit quantities multiplied by the unit prices. It is reasonably possible that future quantity variances could occur due to changes in the scope of the original contract or due to differences in actual quantities incurred upon completion from those originally estimated at inception of the contract. Management's estimates of cost to complete contracts in progress at the balance sheet date could change due to unpredictable events such as adverse weather. Significant changes in the contract amounts or total estimated cost could materially effect the revenue and net income reported on the statement of income and retained earnings.

HASSELL CONSTRUCTION COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

11. Cost and Estimated Earnings on Contracts in Progress

Billings in excess of cost and estimated earnings on contracts in progress at June 30, 2016 consist of the following:

Billings to date		\$ 89,954,691
Less:		
Cost to date	\$ 84,793,186	
Estimated earnings	4,973,710	89,766,896
		<u>187,795</u>
Billings in excess of cost and estimated earnings - net		<u>\$ 187,795</u>
Billings in excess of cost and estimated earnings on contracts in progress		\$ 1,227,689
Cost and estimated earnings in excess of billings on contracts in progress		<u>1,039,894</u>
		<u>\$ 187,795</u>

12. Backlog

The following schedule summarizes changes in backlog amounts on contracts during the year ended June 30, 2016. Backlog represents the amount of gross revenue the Company expects to realize from contracts in progress at year end and contractual agreements on work which has not yet begun.

Backlog balance at June 30, 2015	\$ 23,126,876
Revisions to contract estimates at June 30, 2015	817,146
New contracts added during the year ended June 30, 2016	7,247,856
	<u>31,191,878</u>
Less contract revenues earned during the year ended June 30, 2016	<u>26,264,174</u>
Backlog balance at June 30, 2016	<u>\$ 4,927,704</u>

The Company entered into additional contracts with estimated revenues of \$12,976,557 between July 1, 2016 and October 24, 2016.

13. Major Customers

For the year ended June 30, 2016 the Company had revenues in excess of 10% of its gross revenues attributable to various customers which totaled \$11,093,720. At June 30, 2016 amounts due from these customers included in accounts receivable were \$3,271,258.

14. Related Party Transactions

During the year ended June 30, 2016 the Company rented certain equipment from a trust which owns all of the class B common stock of the Company. The rental costs incurred during the year ended June 30, 2016 were \$81,188 reported in direct costs - equipment rentals on the statement of income and retained earnings, and accrued expenses - other on the balance sheet.

During the year ended June 30, 2016 the Company entered into a contract with a related company, owned 50% by the principal stockholder of the Company, to provide paving services related to a community development. The contract is 18.46% complete at June 30, 2016. Revenues earned to date related to this contract at June 30, 2016 totaled \$226,135. At June 30, 2016 the Company reported cost and estimated earnings in excess of billings of \$114,762 on this contract.

**HASSELL CONSTRUCTION COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

14. Related Party Transactions - Continued

During the year ended June 30, 2016 the Company recorded leased labor expenses of \$2,647,274, payable to a related company. Amounts due to this affiliate at June 30, 2016 which are included in accounts payable - trade, totaled \$47,553. The Company also had amounts due from this affiliate of \$459 and \$7,204 which are included in accounts receivable - affiliate and accounts receivable - trade, respectively, at June 30, 2016. The Company also leases office space from this affiliate on a month-to-month basis. Total rental expense for the year ended June 30, 2016 was \$60,500. The Company purchased this office building from this affiliate on August 31, 2016 (see Note 17). During the year ended June 30, 2012 the Company entered into a contract with this affiliate to provide paving services related to a community development. The contract is 91.21% complete at June 30, 2016. Revenues earned to date related to this contract at June 30, 2016 totaled \$1,267,819. At June 30, 2016 the Company reported cost and estimated earnings in excess of billings of \$20,494 on this contract.

On July 1, 2012 the Company entered into a joint venture agreement with the related companies of R. Hassell & Co., Inc., R Hassell Builders, Inc., The R Hassell Holding Companies, Inc. and G.R. Group Resources, Inc. (collectively R. Hassell) to engage as joint venturers in the construction of certain public and/or private contracts awarded to the Company or the related companies from that date until termination of the agreement. The joint venture agreement called for sharing of profits with R. Hassell receiving 25% of net profits on completed contracts and the Company receiving 75% of net profits. Net losses on completed contracts are to be shared equally. The agreement provides that applicable main or branch office overhead of the joint venturers may be charged to the joint venture construction projects. Equipment costs and other costs of construction were to be charged to contracts under the joint venture agreement in accordance with sound accounting practices. The joint venture agreement was terminated on July 17, 2013. All contracts entered into between July 1, 2012 and July 17, 2013 are governed by the joint venture agreement. There were three contracts in progress at June 30, 2016 subject to the joint venture agreement. There were no contracts completed during the year ended June 30, 2016 subject to the joint venture agreement. The Company is reporting a balance due from the related companies in other assets of \$3,766,012 at June 30, 2016. This balance includes interest charges of \$175,462 along with other costs incurred on behalf of the related companies of \$143,881 for the year ended June 30, 2016 (see note 16).

At June 30, 2011 the Company had an unsecured note receivable due from a related party in the amount of \$362,849. The note was to be payable in full on October 15, 2011 with annual interest of 5% payable quarterly. The balance has not been paid as of the date of the auditors' report and has been reported in other assets as of June 30, 2016.

15. Accounting for Uncertainty in Income Taxes

The Company files United States income tax returns and files State of Texas franchise tax returns. At June 30, 2016, the Company's tax returns open for review by taxing authorities included the years ended June 30, 2013 to June 30, 2015 for United States tax returns, and the years ended June 30, 2012 to June 30, 2015 for the State of Texas tax returns.

**HASSELL CONSTRUCTION COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

16. Litigation and Contingency

The Company has filed a lawsuit against Springwoods Realty Company and Harris County Improvement District No. 18 (owners) which were owners of a contract on which the Company was the general contractor. The Company is seeking to recover damages proximately caused by the failure of the owners to provide the Company with plans adequate and suitable to bid and build the project, alternatively caused by the disruption, delays and hindrances to the progress of its work, and alternatively caused by certain alleged fraudulent practices by Springwoods Realty Company. The Company has engaged an expert to determine the amount of the damages incurred, however, his report has not yet been finalized. The owners vigorously deny any liability. The owners have sued the project's engineering firm for indemnity and contribution. The case was abated pending a determination of certain legal issues in a potential bankruptcy proceeding pending in the Bankruptcy Court for the Southern District of Texas, but this bankruptcy proceeding was dismissed during the year ended June 30, 2016 (see below). The case is currently set for a hearing on defendants' motions for summary judgement. The Company's management is confident that it will prevail and is actively pursuing this claim and will pursue settlement upon reasonable terms. At June 30, 2016 the Company has recorded uncollected accounts receivable of \$302,909 on this contract (see Note 4). The Company subcontracted the majority of this contract to R. Hassell & Co., Inc. (a related company) and advanced the related company funds to complete the contract. Any amount received by the Company as the result of a favorable outcome will be applied to the account receivable and note receivable from the related parties reported in other assets on the balance sheet (see Note 14). On September 15, 2014 several related parties that have previously brought claims against the Company, which are now subject to an arbitration proceeding, have attempted to intervene in this matter (see below).

The related companies of R. Hassell (plaintiffs) who had entered into a joint venture agreement with the Company (see Note 14) have filed a petition for declaratory judgment against the Company alleging that the Company breached the joint venture agreement by failure to provide the plaintiffs with an accounting of the joint venture projects; by failure to reimburse the plaintiffs for costs incurred on joint venture projects which include labor, equipment, subcontract, overhead and by failure to pay the plaintiffs their share of joint venture profits. In addition, the plaintiffs are alleging that the Company breached the joint venture agreement by taking over assets of the plaintiff and utilizing them to conduct work on construction projects that were not included in the joint venture. The plaintiff is seeking to recover \$4,999,999, plus attorneys' fees, interest, arbitration costs and punitive / exemplary damages. The judge in this case has remanded it to binding arbitration. The plaintiffs requested that the judge reconsider this decision and the request was denied. As a result the plaintiffs filed a Demand for Arbitration dated May 2, 2014 against the Company. In addition, the plaintiffs filed a Petition for Writ of Mandamus in the Texas Court of Appeals seeking review of the trial courts order compelling arbitration and abatement of the lawsuit. The outcome of the Petition for Writ of Mandamus is unknown at this time. The arbitration proceedings had been stayed by order of the Bankruptcy Court pending the resolution of the involuntary petition (as explained in the following paragraphs) but the bankruptcies have since been dismissed and arguably stayed until October 17, 2016. On October 18, 2016 the American Arbitration Association (AAA) held an initial status conference to discuss issuance of a new scheduling order. At this time the panel entered an order setting new deadlines to amend pleadings and a hearing schedule regarding the same in December 2016. It is anticipated that a scheduling order setting this matter for final hearing will be entered thereafter. The Company intends to vigorously defend itself against these claims.

**HASSELL CONSTRUCTION COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

16. Litigation and Contingency - Continued

On May 2, 2014 the Company filed its own Demand for Arbitration: James C. Hassell and Hassell Construction Company, Inc. v. R. Hassell, and Royce J. Hassell and Silvia T. Hassell. The Company is seeking to recover up to \$10,000,000 based on claims of breach of contract, fraud, breach of fiduciary duty and business disparagement. The Company has also sought to foreclose on several deeds of trust securing indebtedness to the Company. Royce and Silvia Hassell filed a lawsuit seeking a judicial declaration that they are not proper parties to the pending arbitration and whether real property interests of theirs are arbitrable. The Company intends to vigorously pursue these claims. On December 16, 2014 Royce and Silvia Hassell filed another Petition for Writ of Mandamus in the First Court of Appeals seeking relief from the order transferring their individual claims to arbitration. The Petition for Writ of Mandamus was pending and stayed by order of Bankruptcy Court pending the resolution of the involuntary petition (as explained in the below paragraph) but the bankruptcy has since been dismissed and the stay lifted. According to outside legal counsel, the court could consider the petition, however, based on the passage of time it seems somewhat unlikely.

The Company filed a motion to consolidate the two proceedings and on September 3, 2014 the R7 arbitrator granted the motion to consolidate. On February 5, 2015, an Involuntary Petition under Chapter 7 of the Bankruptcy Code was filed against two alleged debtors, Hassell 2012 Joint Venture and Springwoods Joint Venture (collectively, the "Alleged Debtors"), by R. Hassell Holding Company, Inc. The Company is alleged to be involved as a joint venturer in these joint ventures. The Involuntary Petition alleges, under penalty of perjury, that the Alleged Debtors are "generally not paying such debtor's debts as they become due, unless such debts are the subject of a bona fide dispute as to liability or amount." The Court subsequently split the case into two separate cases. The Court ruled that Hassell 2012 Joint Venture was a partnership under Texas Law, but upon motion by the Company, the court has now dismissed this case which is a significant victory for the Company. R. Hassell Holding, Inc. filed a Motion for Reconsideration of the Court's ruling, but this was denied on October 17, 2016. The Springwoods Joint Venture case was also dismissed during the year ended June 30, 2016 and is considered final and non-appealable.

On October 15, 2013 The Company filed a lawsuit against Trunkline Gas Company, LLC, Panhandle Eastern Pipe Line Company, LP, Southern Union Panhandle, LLC, Sea Robin Pipeline Company, LLC, Isaacks Directional Drilling and Isaacks Contracting, Inc. seeking to recover damages of between \$300,000 and \$500,000 incurred due to delays as a result of the migration of drilling mud from a well into the excavation, preparation and paving being conducted by the Company on the Springwoods Village Parkway Phase II project. The Company has since made the decision to non-suit its claims against the defendants but the Company will remain in the case however, because one of its subcontractors (R. Hassell & Co., Inc.) on the Springwoods Village Parkway Phase II project filed a plea in intervention and alleged cross claims against the Company for inter alia breach of an alleged partnership agreement involving the Springwoods Village Parkway Phase II project. The case was abated pending a determination of certain legal issues in a potential bankruptcy proceeding pending in the Bankruptcy Court for the Southern District of Texas, but this bankruptcy proceeding was dismissed during the year ended June 30, 2016 (see aforementioned paragraphs). During the course of the bankruptcy proceeding, the bankruptcy judge, although not fully and finally deciding the issue, authored a memorandum opinion calling into serious doubt whether the Company and R. Hassell & Co., Inc. were in fact partners in the Springwoods Village Parkway Phase II project. Discovery has just begun, and according to outside legal counsel, it is too early in the case to determine whether the Company may have any real liability or the extent of damages flowing therefrom. However, given the bankruptcy judge's memorandum opinion, the Company believes that its liability and any damages are limited and potentially minimal, if not non-existent, other than the cost of the defense. The Company has not recorded any amounts in connection with this lawsuit in these financial statements.

**HASSELL CONSTRUCTION COMPANY, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

16. Litigation and Contingency - Continued

On February 7, 2015 a Company employee was injured inside a trench excavation during operations to tie-in a water line. On that same day, Occupational Safety and Health Administration (OSHA) conducted a site inspection of the Company's operations for the water-line job. On July 22, 2015 OSHA issued the Company citations resulting from its site inspection on February 7, 2015. The citations further assessed a total of \$420,300 in proposed penalties against the Company. On August 11, 2015, the Company served its notice of contest, thereby officially contesting the citations, including the proposed penalties. On September 2, 2015, the Secretary of Labor filed his complaint against the Company, which the Company has timely answered. On July 26, 2016 the parties attended a mandatory settlement conference conducted by an administrative law judge for the Occupational Safety and Health Review Commission (OSHRC). As a result of this conference the Company and the Secretary of Labor reached a tentative settlement of this matter dependent on the Company's production of the June 30, 2016 audited financial statements demonstrating no significant change in the company's financial status as of the June 30, 2015 audit. Legal counsel is unable to opine as to whether the likelihood of an unfavorable outcome is either probable or remote and, thus, expresses no opinion as to the likely outcome of this matter. In the opinion of Company management, this matter will not have a material effect on the Company's financial position. The Company has not recorded any amounts in connection with this lawsuit in these financial statements.

17. Subsequent Events

On August 24, 2016 and September 30, 2016 the Company renewed two certificates of deposit (see Note 3).

On August 31, 2016 the Company purchased an office building from an affiliated company, which the Company had previously leased on a month-to-month basis, for \$360,000 (see Note 14).

The Company evaluated events that occurred subsequent to June 30, 2016 through the date of issuance of these financial statements on October 24, 2016. There were no other material recognized or non-recognized subsequent events during this period, other than as mentioned in note 16.

SUPPLEMENTAL SCHEDULES



Morris, Ligon & Rodriguez
Certified Public Accountants
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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
Hassell Construction Company, Inc.
Houston, Texas

We have audited the financial statements of Hassell Construction Company, Inc. as of and for the year ended June 30, 2016, and our report thereon dated October 24, 2016, which expressed a qualified opinion on those financial statements, appears on pages 2 and 3. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The attached schedules of accounts receivable, notes payable, reconciliation of contract revenue and cost, contracts in progress, and completed contracts are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Morris, Ligon & Rodriguez

October 24, 2016

HASELL CONSTRUCTION COMPANY, INC.
ACCOUNTS RECEIVABLE
JUNE 30, 2016

Customer	Total	Retainage	Estimates and Trade
<u>Current</u>			
CC Telge Road, LP	\$ 96,278		\$ 96,278
City of Tomball	1,418,566	\$ 500,866	917,700
CW SCOA West, LP	423,297	292,547	130,750
Fort Bend County	787,430	450,470	336,960
GR-M1, Ltd	64,926		64,926
Harper Brothers Construction, LLC	179,452		179,452
Harris County	1,041,878	511,334	530,544
JH Navasota Development	111,373		111,373
Nash Cinco NW, LLC	649,081	63,563	585,518
Smith and Company	1,065,260	129,020	936,240
All others each less than \$50,000	171,259	31,699	139,560
Subtotal	<u>6,008,800</u>	<u>1,979,499</u>	<u>4,029,301</u>
<u>Long-Term</u>			
Harris County Improvement District No. 18	<u>302,909</u>	<u>50,000</u>	<u>252,909</u>
Total	<u>\$ 6,311,709</u>	<u>\$ 2,029,499</u>	<u>\$ 4,282,210</u>

See notes to financial statements

Aged Estimates and Trade				
0 - 30 Days	31 - 60 Days	61 - 90 Days	91 - 120 Days	Over 120 Days
				\$ 96,278
\$ 345,812	\$ 11,535	\$ 560,353		
				130,750
80,526	256,434			
				64,926
				179,452
		501,408		29,136
111,373				
21,942	497,439	66,137		
160,027	681,234	94,979		
6,819	39,861			92,880
726,499	1,486,503	1,222,877		593,422
				252,909
\$ 726,499	\$ 1,486,503	\$ 1,222,877		\$ 846,331

HASSELL CONSTRUCTION COMPANY, INC.
NOTES PAYABLE
JUNE 30, 2016

Payable to and collateral	Payments Including Interest	Payments Remaining	Net Balance Due	Current Amount	Non- Current Amount
<u>Long-term debt:</u>					
Capital One Equipment Leasing and Finance					
Peterbilt tractor	\$ 3,334	5	\$ 15,460	\$ 15,460	
CommunityBank of Texas					
Ford F550	1,729	4	6,452	6,452	
Peterbilt 337	1,941	12	22,586	22,586	
Line of credit					
Accounts, instruments and chattel paper, general intangibles and other rights to payment, a certificate of deposit, and eligible equipment	(2)		3,813,711		\$ 3,813,711
	<u>3,670</u>		<u>3,842,749</u>	<u>29,038</u>	<u>3,813,711</u>
GE Capital					
Planer	2,557	(1) 10	25,563	25,563	
Komatsu Financial					
D39PX-23 crawler dozer	2,767	(1) 22	60,883	33,209	27,674
PC88MR-8 hydraulic excavator	2,719	(1) 7	19,031	19,031	
WA200-6 wheel loader	2,804	(1) 22	61,694	33,652	28,042
D21P-8 crawler dozer	2,589	2	4,858	4,858	
D61PX-23 crawler dozer	4,151	(1) 43	178,486	49,810	128,676
D61PX-23 crawler dozer	4,151	(1) 43	178,486	49,810	128,676
PC240LC-10 hydraulic excavator	3,839	(1) 43	165,098	46,074	119,024
WA200-7 wheel loader	2,984	(1) 43	128,295	35,803	92,492
WA200-7 wheel loader	3,178	(1) 43	136,662	38,139	98,523
PC240LC-10 hydraulic excavator	3,571	(1) 43	153,550	42,851	110,699
	<u>32,753</u>		<u>1,087,043</u>	<u>353,237</u>	<u>733,806</u>
Wells Fargo Equipment Finance					
Various equipment	4,565	7	31,572	31,572	
	<u>\$ 46,879</u>		<u>\$ 5,002,387</u>	<u>\$ 454,870</u>	<u>\$ 4,547,517</u>

(1) Non-interest bearing note

(2) Guaranteed by the principal stockholder

See notes to financial statements

**HASSELL CONSTRUCTION COMPANY, INC.
RECONCILIATION OF CONTRACT REVENUE AND COST
FOR THE YEAR ENDED JUNE 30, 2016**

	Revenue	Cost	Field Profit
Contracts in progress	\$ 89,766,896	\$ 84,793,186	\$ 4,973,710
Completed contracts	31,230,702	28,497,008	2,733,694
	120,997,598	113,290,194	7,707,404
Less contracts brought forward	94,733,424	88,750,112	5,983,312
	<u>\$ 26,264,174</u>	<u>\$ 24,540,082</u>	<u>\$ 1,724,092</u>

See notes to financial statements

HASELL CONSTRUCTION COMPANY, INC.
CONTRACTS IN PROGRESS
JUNE 30, 2016

Job No.	Customer/Description	Amended Contract	Cost Incurred To Date	Estimated Cost To Complete	Estimated Total Cost
10-27	Hassell Management Services, LLC Holland Ridge	\$ 1,390,000	\$ 1,254,150	\$ 120,850	\$ 1,375,000
11-18	Harris County Improvement District No. 18 Springwoods Village Parkway, Phase II	14,861,500	14,871,991	43,709	14,915,700
11-20	Texas Department of Transportation FM 1774, Montgomery County	15,121,100	13,903,281	159,319	14,062,600
12-08	Harris County				
12-22	Transtar emergency building and parking lot	10,437,600	11,057,071	22,529	11,079,600
12-17	Texas Department of Transportation US 59 frontage road Harris County	20,106,900	17,231,661	361,839	17,593,500
13-06	Texas Department of Transportation Staffordshire Road Fort Bend County	3,831,900	3,518,582	18	3,518,600
14-02	City of Tomball Tomball Medical Complex Drive	6,127,500	5,237,821	376,179	5,614,000
14-12	CC Telge Road, LP Willowcreek Ranch Sections 4 and 6	1,057,000	905,661	24,439	930,100
14-17	Fort Bend County Golfview, Section 2	4,525,200	4,558,418	193,482	4,751,900
15-01	CW SCOA West, LP Towne Lake, Section 35	2,190,100	1,989,736	164	1,989,900
15-02	Harris County MUD No. 501 Towne Lake, Section 40	1,202,800	969,253	68,247	1,037,500
15-05	Smith and Company League Line Road extension	3,856,500	2,536,924	971,476	3,508,400
15-06	Caldwell Watson Development, Inc. Willowcreek Ranch Lodge	209,200	152,795	25,705	178,500
15-07	Harper Brothers Construction, LLC City of Sugar Land Brazos River Park	1,734,800	1,454,413	38,087	1,492,500
15-09	GR-M1, Ltd. Meridiana, Section 4	955,300	758,572	52,928	811,500

Estimated Field Profit (Loss)	Percent Complete	Revenue Earned To Date	Billings To Date	Work in Progress	Advance Billings
\$ 15,000	91.21	\$ 1,267,819	\$ 1,247,325	\$ 20,494	
(54,200) (2)	99.71	14,817,791	14,635,307	182,484	
1,058,500	98.87	14,950,232	14,806,266	143,966	
(642,000) (2)	99.80	10,415,071	10,226,671	188,400	
2,513,400	97.94	19,692,698	19,676,910	15,788	
313,300	100.00	3,831,900	3,626,824	205,076	
513,500	93.30	5,716,958	5,648,866	68,092	
126,900	97.37	1,029,201	962,777	66,424	
(226,700) (2)	95.93	4,331,718	4,517,574		\$ 185,856
200,200	99.99	2,189,881	2,163,329	26,552	
165,300	93.42	1,123,656	1,202,767		79,111
348,100	72.31	2,788,635	3,225,488		436,853
30,700	85.60	179,075	209,104		30,029
242,300	97.45	1,690,563	1,734,774		44,211
143,800	93.48	893,014	955,254		62,240

HASSELL CONSTRUCTION COMPANY, INC.
CONTRACTS IN PROGRESS
JUNE 30, 2016

Job No.	Customer/Description	Amended Contract	Cost Incurred To Date	Estimated Cost To Complete	Estimated Total Cost
15-10	City of Tomball Tomball Business Park	4,898,600	3,578,232	821,768	4,400,000
16-01	Nash FM 529, LLC Elyson, Section 5	649,800	596,458	17,642	614,100
16-02	JH Navasota Development Pine Lakes Estates	1,225,000	210,311	928,989	1,139,300
16-03	Nash FM 529, LLC Elyson construction trailer site	313,800	7,856	284,144	292,000
		<u>\$ 94,694,600</u>	<u>\$ 84,793,186</u>	<u>\$ 4,511,514</u>	<u>\$ 89,304,700</u>

(1) No field profit is recognized on contracts less than 15% complete

(2) 100% of estimated loss is recognized at the time it is anticipated

See notes to financial statements

Estimated Field Profit (Loss)	Percent Complete	Revenue Earned To Date	Billings To Date	Work in Progress	Advance Billings
498,600	81.32	3,983,542	4,368,454		384,912
35,700	97.13	631,151	635,628		4,477
85,700	18.46	226,135	111,373	114,762	
<u>21,800</u>	2.69 (1)	<u>7,856</u>		<u>7,856</u>	
<u>\$ 5,389,900</u>		<u>\$ 89,766,896</u>	<u>\$ 89,954,691</u>	<u>\$ 1,039,894</u>	<u>\$ 1,227,689</u>

**HASSELL CONSTRUCTION COMPANY, INC.
COMPLETED CONTRACTS
FOR THE YEAR ENDED JUNE 30, 2016**

Job No	Customer/Description	Revenue	Cost	Field Profit (Loss)	
				Amount	Percent
11-21	Texas Department of Transportation FM 646, Galveston County	\$ 9,733,271	\$ 9,104,776	\$ 628,495	6.46
13-10	Texas Department of Transportation Highway 105, Montgomery County	1,653,948	1,432,303	221,645	13.40
14-01	Harris County Louetta Road	1,506,918	1,533,470	(26,552)	(1.76)
14-04	D.R. Horton-Texas, Ltd. Shadow Lake Forest	1,639,325	1,457,969	181,356	11.06
14-05	JNC Development, Inc. Plantation Lake, Section 22	395,403	362,567	32,836	8.30
14-07	Harris County Morton Ranch Road	4,482,081	4,176,805	305,276	6.81
14-08	Harris County MUD No. 500 Towne Lake Parkway	1,524,278	1,371,462	152,816	10.03
14-09	Montgomery County MUD No. 137 Northgrove, Sections 1 and 2	2,078,164	1,918,658	159,506	7.68
14-14	Montgomery County MUD No. 137 Northgrove, Sections 3 and 4	1,294,330	1,135,102	159,228	12.30
14-15	Pulte Homes of Texas, LP Southridge Crossing, Section 3	675,033	596,288	78,745	11.67
14-16	D.R. Horton-Texas, Ltd.	1,807,177	1,662,164	145,013	8.02
14-18	Fosters Ridge, Phase 1 and 2				
15-03	MP Construction, LLC Willowcreek Reserve	129,006	113,589	15,417	11.95
15-04	Nash Cinco NW, LLC Cinco Ranch Northwest Section 15	705,242	649,253	55,989	7.94
15-08	GR-M1, Ltd. Meridiana, Sections 3 and 5	1,298,529	1,174,172	124,357	9.58
15-11	Nash Cinco NW, LLC Cinco Ranch Northwest Section 17	1,123,241	999,384	123,857	11.03

HASSELL CONSTRUCTION COMPANY, INC.
COMPLETED CONTRACTS
FOR THE YEAR ENDED JUNE 30, 2016

Job No	Customer/Description	Revenue	Cost	Field Profit (Loss)	
				Amount	Percent
15-12	Terrabrook Eagle Springs, LLC Eagle Springs, Section 51	841,583	708,418	133,165	15.82
	Prior year closed jobs, miscellaneous small jobs, and master service contract	343,173	230,927	112,246	-
	Over-allocated job costs and reimbursed bond fees and insurance premiums		(130,299)	130,299	-
		<u>\$ 31,230,702</u>	<u>\$ 28,497,008</u>	<u>\$ 2,733,694</u>	<u>8.75</u>

See notes to financial statements